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ABSTRACT

Congress justified the recent reform of federal welfare policy in part by citing the increase in the Aid to Families with Dependent Children (AFDC) caseload since the late 1960s. The caseload, i.e., the number of families using AFDC, is determined by the number of families eligible to participate and by the proportion of these families who use the program. Yet the debate over reforming welfare rarely paid attention to the latter, ignoring the participation rates among female heads of families. While the number of cases changed little during the early to mid-1980s, the percentage of families with single female heads who used AFDC declined. During the late 1980s and early 1990s, both caseloads and participation rates increased. This paper documents the changes in participation rates since the mid-1980s, racial and ethnic differences in participation rates, and factors that might be associated with these changes. Several sources of data, including the Current Population Reports from the Bureau of the Census, are used. The only major trend that consistently parallels the changes in participation rates is the trend in unemployment. Existing data do not permit the conclusion that unemployment is the major determinant of participation rates. If unemployment were to drive participation rates, however, the recent changes in welfare legislation may create serious problems for many female heads of families in periods of high unemployment. (Contains 5 tables and 16 references.) (SLD)

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Center for Demography and Ecology

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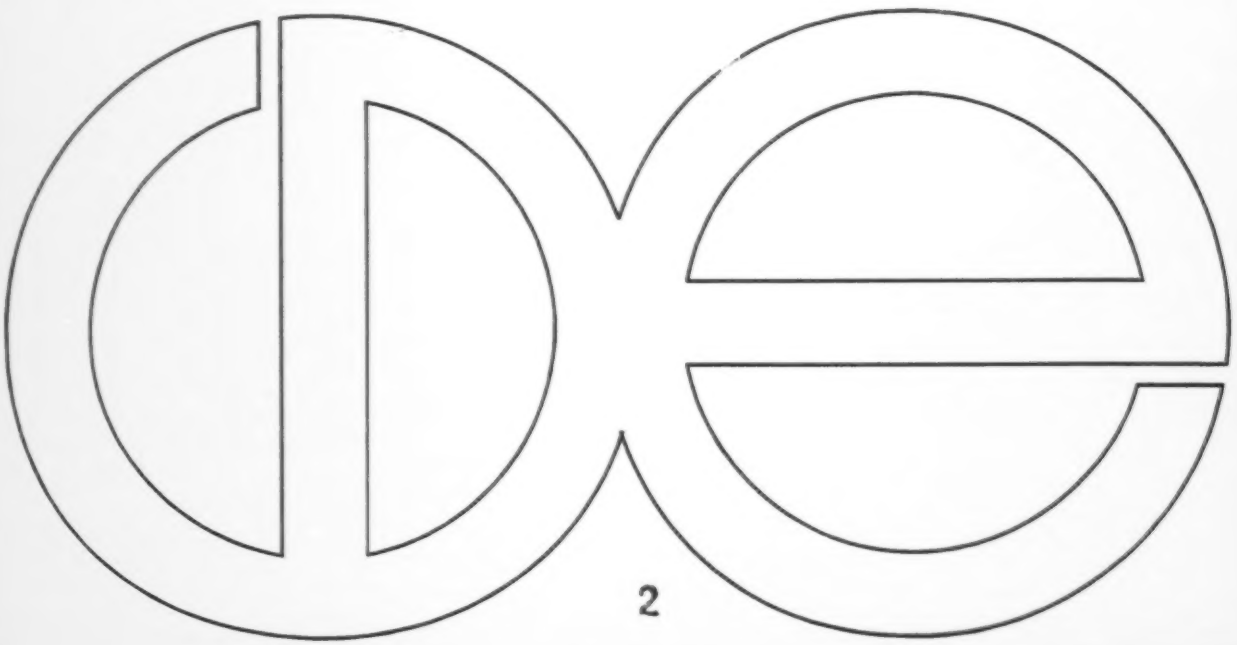

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Trends in AFDC Participation Rates: The Implications for Welfare Reform

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Abstract

Congress justified the recent reform of federal welfare policy in part by citing the increase in the AFDC caseload since the late 1960s. The caseload, i.e., the number of families using AFDC, is determined by the number of families eligible to participate and by the proportion of these families who use the program. Yet the debate over reforming welfare rarely paid attention to the latter—the participation rates among female heads of families. While the number of cases changed little during the early to mid-1980s, the percentage of families with single female heads who used AFDC declined. During the late 1980s and early 1990s, both caseloads and participation rates increased. This paper documents the changes in participation rates since the mid-1980s, racial and ethnic differences in participation rates, and factors that might be associated with these changes. The only major trend that consistently parallels the changes in participation rates is the trend in unemployment. Existing data do not permit us to conclude that unemployment is the major determinant of participation rates. If unemployment drives participation rates, however, the recent changes in welfare legislation may create serious problems for many female heads of families in periods of high unemployment.

Trends in AFDC Participation Rates:
The Implications for Welfare Reform

The public debate over reforming welfare often referred to trends in the AFDC caseload as evidence that the AFDC system needed to be reformed. The House of Representatives conference report on the recent federal welfare reforms, for example, pointed out that the number of children receiving AFDC benefits had increased from 3,300,000 in 1965 to 6,200,000 in 1970 to 7,400,000 in 1980, and then to 9,300,000 in 1992 *(Congressional Record,* Tuesday, July 30, 1996, p. H8831). Much of the increased caseload is due to changes in the percentage of children residing in single-parent families, which rose from 8 percent in 1965 to 22 percent in 1992 (Hernandez 1993).

Moffitt (1992) pointed out that much of the growth in the size of the caseload occurred between 1965 and 1975. Between 1975 and 1985, on the other hand, the size of the caseload remained about the same. Since 1985, the caseload has increased, from 7,615,000 children in 1985 to 9,300,000 children in 1992, or from 3,692 cases (families) in 1985 to 4,769 cases in 1992 (U.S. House of Representatives, Committee on Ways and Means 1993).

The numbers of children and cases receiving AFDC reflect a number of factors, two of which are the number of children living with single female heads and the proportion of these families that use AFDC. The committee report on the federal welfare reform legislation includes a careful discussion of trends in the number of children living with single female heads, but says almost nothing about the trends in the participation of these families in AFDC. As Moffitt (1992) showed, the percentage of female heads with children who received AFDC rose from 36 percent in 1967 to 63 percent in 1973 and declined to 42 percent in 1987. The reduction in participation rates began in the 1970s, with a major reduction occurring between 1981 and 1982 because of changes in eligibility criteria for AFDC introduced in the Omnibus Budget Reconciliation Act (OBRA) of 1981. As we show below, participation rates increased during the late 1980s and early 1990s.

The information on the number of AFDC cases is released each year, but the government provides no information on participation rates. Nonetheless, information on participation rates is an important part of what we should consider in evaluating the operation of the AFDC program and in considering the likely impact of the new welfare reform legislation on families with single female heads.

In this paper, we ask two questions about participation in the AFDC program: (1) what have been the trends in participation rates during the late 1980s and early 1990s? and (2) what factors are associated with trends in participation rates? The answers to these questions provide information on what we might anticipate to be some of the effects of the recent federal welfare reform.

WHAT HAVE BEEN THE TRENDS IN CASELOADS AND PARTICIPATION RATES DURING THE LATE 1980S AND THE EARLY 1990S?

Moffitt (1992) investigated trends in AFDC participation rates over the period 1967–1987. Among female heads with children, he found a tremendous increase in AFDC participation rates between 1967 and 1973, followed by a decline between 1973 and 1987. Similarly, Jencks (1992) investigated patterns of AFDC receipt over the period 1960–1988 and found the same pattern: a substantial increase in participation rates from 1960–1972, followed by a more gradual, but significant decline over the period 1972–1988.

We build on the preceding analyses by investigating patterns of receipt separately for whites, blacks, and Hispanics and by updating trends in AFDC receipt by focusing on the period 1983–1992. We update some of Moffitt's descriptive findings for the period 1988–1992, and finally, we attempt to uncover factors which are associated with patterns of AFDC participation.

We estimated participation rates by dividing the number of regular AFDC cases (excluding AFDC-UP cases, that is, cases with two parents in the household) by the population of female heads

of families.[1] Data on the average monthly caseload come from the Department of Health and Human Services, Administration for Children and Families. These data are based on agency reports from each state. Data on the racial composition of the caseload come from the National Integrated Quality Control System. Quality control data are data on specific characteristics of recipients based on monthly samples of agency case files. Finally, population figures have been computed by the authors, using microdata from the March Current Population Survey (CPS).

Consulting several different sources of data is necessitated by the underreporting of AFDC receipt in the CPS. The Census Bureau's technical documentation states as much: ". . . from an analysis of independently derived income estimates, it has been determined that wages and salaries tend to be much better reported than such income types as public assistance. . ." (1993a, p. 9–4). A quick comparison of the figures presented in Table 1, Panel A (using agency reports of AFDC receipt) and Table 1, Panel B (using self-reports of receipt in the CPS) shows how severe the underreporting is. Underreporting is pervasive among all three groups, but seems to be worse among whites and Hispanics.

Our time series of AFDC participation rates for the period 1983–1992 is presented in Table 1, Panel A. For the period 1983–1989, we find the same small but gradual decline in the participation rate that Moffitt and Jencks had uncovered throughout the mid- to late 1980s. However, beginning in 1990, the trend in the overall participation rate began to turn around. In contrast to the gradual decline which had been taking place since the early 1970s, in 1990, the AFDC participation rate began to increase and continued to do so through 1992. The sudden upturn eroded the moderate progress that had been taking place and in 1992, the AFDC participation rate reached its highest level in the last ten years.

When we examine racial and ethnic differences in participation rates, we see different patterns emerging over this ten-year period.[2] Quite consistent with the overall pattern, the participation rates

TABLE 1
AFDC Participation Rates among Female Heads of Families with Children under 18

A. Various Data Sources

Year	Total	Whites	Blacks	Hispanics
1983	48	38	59	59
1984	47	37	57	58
1985	46	34	58	56
1986	46	35	55	57
1987	47	36	53	61
1988	46	35	51	63
1989	46	34	56	64
1990	47	34	55	67
1991	50	36	60	73
1992	52	39	58	78

B. Data Exclusively from the CPS

Year	Total	Whites	Blacks	Hispanics
1983	31	20	43	42
1984	30	20	41	43
1985	30	21	42	44
1986	31	23	40	42
1987	31	22	40	42
1988	29	21	38	39
1989	27	20	35	34
1990	29	21	38	39
1991	31	24	41	39
1992	31	23	39	39

Sources: Panel A: U.S. House of Representatives 1993, p 685, Table 24; National Integrated Quality Control System; U.S. Bureau of the Census, March CPS, 1984–1993; Panel B: Tabulations from U.S. Bureau of the Census, March CPS, 1984–1993.

among whites exhibit a gradual decline through the 1980s, but turn around and increase in 1991 and 1992. The pattern of AFDC receipt among blacks shows a significant decline in participation taking place during the 1980s; however, this is followed by an increase in participation rates after 1988. The participation rates of Hispanics exhibit a decline during the mid-1980s, but differ from the other patterns of receipt in that Hispanic participation rates began a sustained increase as early as 1987 and rose at a much faster pace over the remaining six years. By 1992, AFDC participation rates of white and black female heads had reached their 1983 levels, but participation rates among Hispanics had exceeded levels found in 1983 by approximately twenty percentage points.

In addition to displaying different patterns of receipt over this ten-year period, Table 1, Panel A also clearly reveals large racial differentials in participation rates. In 1983, participation rates among blacks and Hispanics were found to be about twenty percentage points higher than among whites. However, whereas black participation rates remained about twenty percentage points higher than white rates throughout the period, by 1992, Hispanic participation rates were found to be twenty percentage points above black rates and about forty percentage points above white rates.

WHAT FACTORS ARE ASSOCIATED WITH THE TRENDS IN PARTICIPATION?

Past research on the determinants of AFDC participation have pointed to the effects of the socioeconomic attributes of female heads, social policy, and economic factors. No existing data permit a multivariate analysis of the factors associated with trends in participation over the period from 1983 through 1992. The CPS, so useful for the analyses of other social trends, has weaknesses in its data on participation in AFDC; the Survey of Income and Program Participation (SIPP) relies on panels that cover only a part of this time period. We can, however, examine trends in factors that might be associated with the trends in participation rates. Such an analysis is not as satisfying as one that controls for alternative explanations simultaneously and tests for the statistical significance of

relationships. A comparison of trends does, however, allow us to identify some possible explanations of the trends in participation.

1. Socioeconomic Characteristics

First, we consider the demographic characteristics of female heads. If the composition of female heads of families changes in such a way that socioeconomic attributes improve, then we might expect to see participation rates going down. Conversely, if the socioeconomic characteristics of female heads deteriorate, we might expect to see increases in participation rates, all other things being equal.

For instance, previous research has shown that higher levels of education (measured in years of schooling) reduce the likelihood of AFDC receipt (Robins 1986, 1990). Similarly, the likelihood of AFDC participation decreases as female heads mature in age (Robins 1986, 1990). Southern residence has a negative effect on the likelihood of AFDC receipt as the result of stricter eligibility requirements and the small benefit levels found in Southern states (Moffitt 1986; Robins 1986, 1990; Sandefur 1989). On the other hand, having never been married increases the likelihood of AFDC receipt among female heads (Robins 1990). Similarly, each additional child in a family increases the likelihood of AFDC participation (Blank 1989; Robins 1990). Thus, if the composition of female heads and female-headed families changes significantly across any of these (or other) dimensions, we may expect to see a corresponding change in AFDC participation rates.

Table 2 contains descriptive statistics for several demographic variables. The panels (A–H) exhibit compositional differences among the three racial and ethnic groups. Of note are the cross-group differences in urban location, region, education, marital status, number of children, poverty, and employment.

Across years, the tables show very little change in the characteristics of female heads and female-headed families. This is true whether we consider all female heads of families or white, black,

TABLE 2

Demographic Characteristics of Female Heads of Families with Children under 18

A. Metropolitan Location of Female Heads

Year	Total			Whites			Blacks			Hispanics		
	Suburban Ring	Central City	Outside SMSA	Suburban Ring	Central City	Outside SMSA	Suburban Ring	Central City	Outside SMSA	Suburban Ring	Central City	Outside SMSA
1988	29	38	34	36	21	44	18	55	27	25	59	16
1989	29	36	35	37	19	43	19	53	29	26	56	18
1990	29	35	36	36	19	45	18	53	29	30	55	15
1991	30	36	34	38	20	43	19	53	28	28	55	17
1992	29	36	35	38	19	43	18	53	29	27	57	17

B. Regional Distribution of Female Heads

Year	Total				Whites				Blacks				Hispanics			
	Northeast	Midwest	South	West	Northeast	Midwest	South	West	Northeast	Midwest	South	West	Northeast	Midwest	South	West
1988	20	22	39	20	20	27	32	22	15	22	54	8	30	7	26	38
1989	19	22	39	20	20	26	33	21	16	22	54	8	27	7	27	40
1990	20	23	39	19	18	28	33	20	18	22	52	7	30	7	25	38
1991	20	24	38	19	20	29	31	21	17	23	54	6	27	5	26	41
1992	19	24	39	19	19	28	33	20	16	24	54	7	27	7	22	44

C. Educational Distribution of Female Heads

Year	Less Than High School	High School Degree	Some College	College Degree	Less Than High School	High School Degree	Some College	College Degree	Less Than High School	High School Degree	Some College	College Degree	Less Than High School	High School Degree	Some College	College Degree
1988	30	40	21	10	21	42	25	12	33	41	20	6	55	28	13	5
1989	28	40	23	9	19	43	27	12	31	41	22	6	54	29	13	4
1990	28	40	23	9	20	43	25	13	32	41	23	5	57	26	13	4
1991	28	39	25	9	19	39	30	12	31	43	21	5	54	28	15	4
1992	26	39	26	9	19	39	31	12	28	43	24	6	50	30	16	4

(table continues)

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TABLE 2, continued

D. Percentage of Female Heads Who Have Never Married

Year	Total	Whites	Blacks	Hispanics
1988	33	18	55	34
1989	33	18	54	36
1990	35	21	57	33
1991	36	21	58	36
1992	36	20	58	40

E. Mean Age of Female Heads

Year	Total	Whites	Blacks	Hispanics
1988	34	34	32	34
1989	34	35	33	33
1990	34	34	33	34
1991	34	34	33	34
1992	34	35	33	33

F. Mean Number of Children in Families with Female Heads

Year	Total	Whites	Blacks	Hispanics
1988	2.2	1.9	2.6	2.5
1989	2.2	1.9	2.5	2.6
1990	1.9	1.7	2.2	2.2
1991	1.9	1.7	2.2	2.3
1992	1.9	1.7	2.1	2.3

G. Percentage of Female Heads Who Worked Last Year

Year	Total	Whites	Blacks	Hispanics
1988	68	77	60	52
1989	69	78	62	55
1990	69	77	62	52
1991	67	76	61	52
1992	66	74	59	54

H. Poverty Rates of Female Heads

Year	Total	Whites	Blacks	Hispanics
1988	44	33	55	57
1989	42	31	52	55
1990	44	34	54	58
1991	46	34	58	58
1992	45	36	56	55

Source: Tabulations from U.S. Bureau of the Census, March CPS, 1989–1993.

and Hispanic female heads separately. This is not surprising given such a brief period of observation. The only changes worthy of mention seem to be the increase in never married female heads and the decline in number of children in families. These changes, by themselves, cannot account for the increase in participation rates found in Table 1.

2. Social Policy

Changes in social policy involving eligibility requirements, deductions, and benefit levels affected rates of participation in the past, the most notable example being the Omnibus Reconciliation Act (OBRA) of 1981.[3]

The Family Support Act (FSA), passed in October 1988, constitutes the only change in the AFDC program between 1987 and 1992. The act increased the deductions which could be taken for work expenses and child care and stated that child care disregards would be assessed after other disregards. Although the FSA, like the Deficit Reduction Act of 1984, did change the structure of benefits, its impact was minor, especially compared with changes brought about by the OBRA legislation. This piece of legislation is probably not responsible for the increase in participation rates.

Changes in the real value of benefits may also affect patterns of AFDC receipt. Indeed, Moffitt (1986) and Blank (1989) found that the likelihood of AFDC receipt increases with an increase in real benefit levels. When discussing patterns in the real value of AFDC benefits, one should also discuss patterns in the real value of food stamps. All AFDC recipients are eligible to receive food stamps, and roughly 90 percent of female heads on AFDC actually receive them (Census Bureau 1995a, 1995b; U.S. House of Representatives 1994, p. 409). We include food stamps in our analysis and feel the inclusion is important for two reasons: It better reflects the whole package of benefits that one receives when enrolling in the AFDC program, and second, food stamps complement AFDC benefits and vary inversely with them. Thus, concentrating only on AFDC benefits would ignore the offsetting contribution of food stamps and give one an exaggerated view of trends in benefit levels.

The same argument applies to Medicaid. All AFDC recipients are eligible to receive Medicaid benefits. Medicaid benefits are thus part of the package of benefits to which an AFDC recipient is entitled. Including Medicaid benefits would give us a better idea of the total dollar value of the benefit package and would better reflect the incentives behind enrolling in AFDC. Unfortunately, computing the value of Medicaid benefits is difficult since their value depends in part on the medical needs of the family. Data on Medicaid expenditures exist, but this is not a measure of value as much as it is a measure of how often and to what extent people get sick or have accidents. Our omission of a measure of potential Medicaid benefits means that we have understated the value of the complete benefit package and have not captured all of the fluctuation in its real value.

In Table 3, we examine participation rates alongside patterns in AFDC benefit levels and food stamps.[4] Although AFDC participation rates rose six percentage points between 1988 and 1992, the figures presented in Table 3 show that real AFDC benefit levels fall consistently from one year to the next, as states did not sufficiently adjust AFDC benefits for inflation. The cumulative result is a 13 percent decrease in real value. Although this drop is in part compensated for by real increases in food stamp benefits, it is only a partial compensation. Over the period of observation, the real value of the AFDC/food stamp benefit package dropped by $16, representing a 2 percent decline. This is consistent with Moffitt's (1992) finding of a small decrease in real AFDC/food stamp benefits throughout the 1980s.

Benefit/earnings ratios give us an idea of how benefits compare to expected earnings. Earnings are expressed as the median real monthly earnings of all working female heads. These ratios presented in Table 3 are shown to be quite small, demonstrating that working is a superior option to AFDC receipt. However, as mentioned above, the benefit package does not include a measure of Medicaid eligibility, thus the ratios are downward-biased. They are further biased downward due to the tremendous amount of selectivity among those working. Women with the most to earn will be

TABLE 3
AFDC Participation Rates and Related Variables, 1988–1992

	1988	1989	1990	1991	1992
AFDC Participation Rates of Female Heads with Children under 18	46	46	47	50	52
Real Monthly Benefits[a]					
AFDC	426	407	391	378	372
Food stamps	237	238	254	270	275
Sum	663	645	645	648	647
Benefit/Earnings[b]					
AFDC	.30	.31	.29	.28	.29
Sum	.47	.50	.48	.47	.50
Other AFDC Parameters					
Benefit reduction rate (%)[c]	100	100	100	100	100
Break-even level	426	407	391	378	372

Sources: *AFDC benefits, food stamp benefits*: U.S. House of Representatives, p. 410; U.S. House of Representatives 1989, p. 540; U.S. House of Representatives 1990, p. 555; U.S. House of Representatives 1991, p. 598; U.S. House of Representatives 1992, p. 637; *Earnings*: Tabulations from U.S. Bureau of the Census, March CPS, 1989–1993.

[a]In 1992 dollars. Benefit level of median state for family with one adult, two children, and no earners.
[b]Median weekly earnings of working female heads multiplied by 4.33.
[c]After 12 months.

those most likely to seek employment. In addition, earnings is calculated for all female heads and, as we shall see below, is not indicative of what AFDC recipients can expect to earn.

Our benefit/earnings ratios are somewhat smaller than Moffitt's. Our ratios demonstrate only minor fluctuations during the late 1980s and early 1990s, partly because there was little inflation that decreased the value of benefits in this period. Relative to earnings, real benefit levels have not demonstrated any significant change between 1988 and 1992.

Turning to the benefit reduction rate, we see that after twelve months of receiving AFDC, the rate is set at 100 percent.[5] That is, after twelve months of participation, AFDC benefits are reduced on a one-for-one basis with each dollar of earned income, starting with the first dollar. Since one dollar in benefits is subtracted for every dollar in earnings, it does not behoove a recipient to work unless she can generate earnings well above the AFDC guarantee level or what Moffitt earlier referred to as the break-even level ($372 in 1992). The break-even level represents the level of earnings at which earners lose all of their AFDC benefits. However, these break-even levels are biased downward since they do not take into account the contribution of food stamps or Medicaid benefits.[6] Given the 100 percent reduction rate, the break-even levels simply reflect the decline in the real value of AFDC benefits. In light of prior research findings, it is not very likely that the recent trend in benefit levels, exhibited in Table 3, can account for the recent upturn in participation rates. If anything, we would expect to witness slightly lower participation rates.

3. Economic Conditions

Economic conditions may also affect participation rates. As hinted at above, inflationary pressures may erode the real value of AFDC benefits and make AFDC receipt less attractive. High rates of inflation during the 1970s severely depressed the real value of benefits. During the period 1975–1981, in which the average annual rate of inflation was 9.2 percent, Moffitt found participation rates dropped from 62 percent to 53 percent. However, inflation rates were quite low between 1988

and 1992. As demonstrated in Table 3, inflation had only a minor depressive effect on the real value of AFDC benefits and cannot plausibly account for the sudden increase in participation rates.

Of course, economic conditions have consequences for the labor force as well. The condition of the economy affects people's ability to find work, and consequently, it is likely to affect rates of participation in the AFDC program.

Table 4 examines patterns among labor force indicators.[7] We will first discuss patterns across groups and then patterns across time. Immediately, we see that only a small proportion of AFDC recipients *report* that they work: only 6–7 percent report being employed. Of those working, only about a third work full-time. Finally, real monthly earnings among employed AFDC recipients are quite low, in the $330–$340 range. All of these findings are consistent with those produced by Moffitt for the mid-1980s.

Other research, however, suggests that the fraction of single mothers on AFDC who work is much higher. Harris (1993), using data from the Panel Study of Income Dynamics (PSID) found that at any given point in time, about one-third of welfare mothers were working and that over time, in a spell of welfare, one-half of all single mothers had some contact with the labor market. Spalter-Roth, Burr, Hartmann, and Shaw (1995), using data from the Survey of Income and Program Participation (SIPP), found that most welfare recipients worked, with the most common jobs being maids, cashiers, nursing aids, child care workers, and waitresses. Edin (1995), relying on personal interviews with welfare recipients, found that a substantial percentage of AFDC recipients engaged in covert work.

The percentage of AFDC recipients who report that they work is low in part due to provisions in the 1981 OBRA, which made reported work largely incompatible with welfare receipt and effectively pushed many wage earners off the welfare rolls or into a situation in which they had to conceal their earnings.[8] However, Moffitt reports that only 14–18 percent of AFDC recipients reported that they were working before OBRA 1981 was enacted.

TABLE 4
Labor Force Indicators for Female Heads with Children under 18 and Other Women in the United States, 1988–1992

	1988	1989	1990	1991	1992
AFDC Female Heads with Children under 18					
Percentage working	6	7	7	6	6
Percentage working full-time[a]	33	35	37	34	34
Real monthly earnings[b]	327	335	341	334	330
All Female Heads with Children under 18					
Percentage working	55	57	55	54	54
Percentage working full-time[c]	84	83	82	81	82
Hours of work per week[d]	38	38	37	37	37
Women over 16, percentage working					
All	51	52	51	51	51
Never married	58	59	57	57	56
Married, spouse present	53	54	53	54	54
Divorced or separated	64	66	64	63	63
Unemployment rate	5.5	5.3	5.5	6.7	7.4

Sources: *AFDC female heads*: U.S. House of Representatives, 1992, p. 671; U.S. House of Representatives 1993, p. 701; U.S. House of Representatives 1994, pp. 404, 406. *All female heads, other women*: Tabulations from U.S. Bureau of the Census, March CPS, 1989–1993.

[a]Of those working. "Full time" defined as 30 hours a week.
[b]Median earnings of the with earned income, in 1992 dollars.
[c]Of those working. "Full time" defined as 35 hours a week.
[d]Of those working.

Returning to Table 4, we see that the labor force patterns of all female heads with children stand in stark contrast to the patterns among the subset of female heads receiving AFDC. Female heads are shown to work and to work full-time in very large proportions. Roughly 55 percent are employed, and of those working, more than 80 percent work full-time.[9] These findings for all female heads are consistent with those reported by Moffitt for the 1980s, although he finds only 75 percent of working female heads to be working full-time.

The employment patterns of female heads of families are comparable to those of all women. The percentage of female heads who are employed surpasses the percentage among all women and is comparable to the percentage among married women.

In terms of trends over time, the reported employment patterns of AFDC recipients remain stable over the five-year period, as do real monthly earnings. In terms of the percentage of women working, the employment patterns of female heads with children and of all women also seem to be quite stable over the period. None of these trends seem to mirror the increase in AFDC participation rates. Thus, the increase in participation rates does not appear to be associated with reported employment among women.

Only the trend in the national unemployment rate seems to correspond with the trend in the AFDC participation rate. In Table 4, we see that the unemployment rate drops in 1989, but that it increases in 1990 and continues to climb upward every year afterward, reflecting a period of economic recession in 1991–1992. Interestingly enough, this is the same pattern found in participation rates: an increase beginning in 1990 and continuing through 1992. Tracing unemployment rates back to 1983, a very interesting picture emerges. Between 1983 and 1989, the unemployment rate falls every year, dropping quite significantly from 9.6 in 1983 to 5.3 in 1989. As we had discussed earlier, during this same period, 1983–1989, AFDC participation rates fell, although not as significantly nor as consistently. Nonetheless, both the unemployment rate and the AFDC participation rate began to

rise precisely in 1990 and both continued to do so through 1992. The relative increases in the unemployment rate and participation rate from one year to the next also seem to follow one another quite closely.

This pattern of association becomes more convincing when we consider the unemployment rates of female heads of households. Table 5 presents unemployment rates for all civilians and for female heads of families. The pattern of unemployment rates among female heads is very similar to the pattern for all civilians. More significantly, the pattern of unemployment rates among female heads of families mirrors the pattern of AFDC participation rates. Both unemployment rates and participation rates declined between 1983 and 1989, both begin to increase precisely in 1990, and both continue to increase through 1992. In fact, between 1988 and 1992, the two patterns are remarkably similar in terms of timing and relative changes from one year to the next.

Increased unemployment rates among female heads of families are highly associated with the observed increase in AFDC participation rates between 1988 and 1992. It seems that the labor force conditions experienced by female heads of families do indeed have implications for rates of participation in the AFDC program. The connection is more clearly evident using unemployment rates rather than percentages of female heads working.

Although this may account for the overall trend, we still have to ask why the increase in the participation rate for Hispanics was so dramatic. A possible explanation for the different experience of Hispanics lies in the impact of the early 1990s recession on states with high concentrations of Hispanics. The unemployment rates in California and New York, the two states with the largest populations of Hispanics, rose from 5.3 to 9.1 and 4.2 to 8.5, respectively, between 1988 and 1992, compared to the increase from 5.5 to 7.4 for the nation as a whole. Florida and New Jersey, two other states with sizable Hispanic populations, were also hit hard by the recession. Texas, the state

TABLE 5
AFDC Participation Rates among Female Heads of Families and Selected Unemployment Rates

Year	AFDC Participation Rate	Unemployment Rate	
		Total	Female Heads of Families
1983	48	9.6	12.2
1984	47	7.5	10.3
1985	46	7.2	10.4
1986	46	7.0	9.8
1987	47	6.2	9.2
1988	46	5.5	8.1
1989	46	5.3	8.1
1990	47	5.5	8.2
1991	50	6.7	9.1
1992	52	7.4	9.9

Sources: U.S. House of Representatives 1993, p. 685, Table 24 and p. 529, Table 3; U.S. Bureau of the Census, March CPS, 1984–1993.

with the third largest Hispanic population, was not hit as hard, and its unemployment rate went from 7.3 in 1988 to 7.5 in 1992.

CONCLUSIONS

Consistent with findings uncovered by Moffitt and Jencks, we found a gradual decline in AFDC participation rates between 1983 and 1989. When we examined racial and ethnic differences in participation rates, we found the same general pattern of reduced participation rates to exist among whites, blacks, and Hispanics. Extending the analysis to 1992, we found the sixteen-year decline in participation rates to suddenly turn around beginning in 1990. We found that participation rates have increased since 1990, and that by 1992, they existed at the highest level in at least ten years. We found this turnaround to exist among all three groups, although we found the upturn to be most pronounced among Hispanics, and, to a lesser extent, among whites.

The severe amount of underreporting of AFDC receipt in the CPS dissuaded us from conducting a regression analysis with the CPS microdata. Our attempt to find factors associated with the above patterns of AFDC receipt consisted of comparing trends in AFDC participation with trends in socioeconomic characteristics, the real value of benefits, and labor force statistics. In the process, we updated several of Moffitt's earlier findings.

We found that the socioeconomic characteristics of female heads of families did not change much over the period and do not show much, if any, association with the pattern of AFDC receipt. Between 1988 and 1992, changes in social policy were fairly minor and inflation remained relatively low. Thus, changes in real benefit levels were found to be quite small and incongruous with the substantial increase in AFDC participation rates.

We did, however, find the pattern of AFDC receipt to closely follow patterns in the unemployment rate, and more specifically, patterns in the unemployment rate among female heads.

The trends in the AFDC participation rate and the unemployment rate among female heads run parallel to one another for the years 1988–1992. Thus, in the absence of any significant changes in social policy, benefit levels, or demographic characteristics, it appears that the sudden increase in AFDC participation rates can be traced to deteriorating economic conditions and increased unemployment rates.

What are the implications of our findings for assessing the likely effects of the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996? The new law makes a number of changes, but perhaps the most significant for discussion here are: (1) the end of the federal guarantee of cash assistance for poor children replaced with block grants to each state to be used to provide Temporary Assistance to Needy Families (TANF); each state is now free to decide what proportion of eligible applicants for assistance it will support; (2) the head of every family must work within two years, or the family loses all benefits; and, (3) lifetime benefits are limited to five years, but a state can impose stricter limits if it chooses to do so.

Our findings have three major implications for the new regime of TANF that replaces AFDC. First, when states experience periods of recession, they will face a double bind. The fraction of female heads of families who apply for assistance will increase directly with the seriousness of the recession. At the same time, the ability of the state to afford to support families needing TANF will decrease. The state will be forced to choose between turning away needy families or increasing taxes in a time of recession to support the increased costs of TANF in the state. Although the new federal law includes some provisions for federal support of states experiencing difficulties, these provisions are unlikely to be sufficient to cover serious recessions.

Second, the difficulty that TANF recipients will have in finding employment within two years will be much greater in areas with high unemployment and/or in periods of high unemployment. States will be forced to make decisions about providing support to families where the head has made

serious efforts to find employment, but has been unsuccessful. Third, the proportion of families who have exhausted their eligibility but are still in need of assistance will be greatly increased during a recession, placing increased demands on the Food Stamp program and private charities.

Notes

[1]The participation rates estimated by Jencks, Moffitt, and us vary in minor ways because each effort used slightly different methods of calculating the number of AFDC recipients and the number of female-headed families. The three sets of time series do, however, agree with one another in terms of the direction of the trend and the relative changes over time.

Moffitt includes in his count of female heads with children all female-headed families with children, including subfamilies. Jencks, on the other hand, counts *households* with children and female heads. We include female heads of households with children under 18 and female heads of families with children under 18 living in male-headed households. We do not include female heads of families living in a female-headed household since the AFDC program considers this to be one unit.

We use the same approach as Moffitt to counting the numbers of AFDC recipients. Jencks excludes those AFDC families with an incapacitated head and AFDC recipients in Puerto Rico, Guam, and the Virgin Islands. The numbers of these recipients are not large enough to make much difference in the counts each year, and they are difficult to identify in some years. The important point is that these minor differences in calculating the participation rates do not affect the pattern in the trend.

[2]Neither Moffitt nor Jencks estimated participation rates for racial and ethnic groups. For the period 1989–1992, we have detailed information on the racial composition of the AFDC-UP caseload and of the total AFDC caseload. Such information does not exist for the 1983–1988 period. The racial compositions do indeed differ, with whites being represented in the AFDC-UP program at much higher proportions and blacks and Hispanics at much lower proportions. In order to estimate rates for the racial and ethnic groups for the 1983–1988 period, we assume that the racial distribution of the AFDC caseload for female heads of household was the same as the racial distribution for the total AFDC caseload during each of these years.

If we had used this procedure for the 1989–1992 period, we would have estimated the following participation rates:

Year	Total	Whites	Blacks	Hispanics
1989	46	35	54	63
1990	47	35	53	66
1991	50	37	57	71
1992	52	40	55	77

Compared to the last four rows in Table 1, Panel A, we see that the participation rates of whites would have been larger, while the participation rates of blacks and Hispanics would have been smaller. However, the differences are not drastic, and more importantly, the trends in participation rates remain intact.

[3]According to former DHHS Assistant Secretary Richard Rubin, 408,000 families lost eligibility and 299,000 families lost benefits as a result of the OBRA legislation (U.S. House of Representatives 1994, p. 439). Moffitt (1992) found participation rates dropped from 53 percent to 44 percent one year after implementation.

[4]Table 3 parallels Table 3 in Moffitt (1992).

[5]Prior to OBRA 1981, a 67 percent benefit reduction rate was levied on all monthly earnings above $30. The 1981 act limited these provisions to the first four months of receipt, after which the $30 disregard was eliminated and the benefit reduction rate was increased to 100 percent. The $30 disregard has since been extended to the first twelve months of receipt.

[6]It is difficult to compute a break-even level which considers AFDC, food stamps, and Medicaid. There is a 30 percent benefit reduction rate in food stamps for every dollar of countable cash income received (whether it be from earnings or AFDC). However, food stamps may still be received after a family loses eligibility for AFDC. Similarly, families may still be eligible for Medicaid after losing eligibility for AFDC. Medicaid may be received for up to twelve months after a family leaves AFDC. However, individual states can determine levels of Medicaid benefits during the last six months.

[7]Table 4 parallels Table 4 in Moffitt (1992).

[8]Among other things, OBRA 1981 put caps on the deductions one could take for work-related expenses and child care. As mentioned earlier, OBRA also limited disregards on earnings from employment and increased the benefit reduction rate to 100 percent.

[9]The large discrepancy in full-time employment exists in spite of the fact that full-time is defined as 30-plus hours of work for AFDC recipients and 35-plus hours of work for all female heads.

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